BEFORE THE
PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA

Proceeding to Establish Guidelines	**)**	
For an Intrastate Universal Service	**)**	**Docket No. 1997-239-C**
Fund	**)**	

INITIAL POST HEARING BRIEF OF ALLTEL SOUTH CAROLINA, INC.

Filed June 25, 2004

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BACKGROUND

Various local exchange carriers ("LECs"), including ALLTEL South Carolina, Inc. ("ALLTEL"), Bluffton Telephone Company, Inc., Hargray Telephone Company, Inc., Home Telephone Company, Inc., Horry Telephone Cooperative, Inc., and PBT Telecom, Inc. filed applications before the South Carolina Public Service Commission ("Commission") requesting additional universal service funding pursuant to the Commission's Order Number 2001-419. (Transcript at page 3, lines 5-21.) In particular, Commission Order No. 2001-419 approved a phased-in plan for implementing the South Carolina Universal Service Fund ("USF"). Additionally, by its Order No. 2001-996, the Commission approved guidelines and administrative procedures ("Guidelines") relating to the implementation of the phased-in approach.

As permitted under these Commission orders, on September 1, 2003, ALLTEL filed proposed revisions to its Intrastate Access Tariff and a Request for State Universal Service Funding ("Application"). Subsequently, on December 18, 2003, ALLTEL revised its Application to reflect changes to the proposed rates and the amount of funding requested from the state USF. In particular, ALLTEL's Application proposed to remove implicit subsidies in ALLTEL's intrastate special access rates and draw additional state USF. According to the Guidelines approved by the Commission, local exchange carriers ("LECs") may file tariffs reducing end user rates that contain implicit support for basic service and recover those amounts from the state USF.

A final hearing on these matters was held on May 5, 2004. The Consumer Advocate, South Carolina Cable Television Association ("SCCTA"), AT&T Communications of the Southern States, Inc. ("AT&T"), MCI Communications ("MCI"), Verizon Wireless, Inc. ("Verizon Wireless"), and ITC DeltaCom were among the parties intervening in this proceeding, although not all intervenors participated at the final hearing. (Transcript at pages 5-8.) As set forth in ALLTEL's filings in this matter, including its proposed tariff and cost studies, and as testified by ALLTEL's witnesses, together with all other applicable evidence presented, ALLTEL's Application is fully compliant with the South Carolina USF Guidelines and should be approved.

STATEMENT OF THE CASE

Effective October 1, 2001, ALLTEL began drawing funds from the USF. (Transcript at page 13, lines 8-10.) ALLTEL reduced its intrastate switched access rates by fifty percent (50%) and began recovering the resulting revenue loss from the state USF. (*Id*.) Pursuant to the Commission’s Guidelines, this access rate reduction (as required in Commission Order Number 2001-419) is referred to as the "first step of the initial phase." (*Id* at lines 11-13.) The "Initial Phase" implemented no more than thirty-three percent (33%) of the USF for each LEC and consisted of two steps. First, intrastate switched access rates were reduced. Second, rates for other services that contained implicit subsidies were reduced; however, as the second step was not mandatory, ALLTEL did not participate in the second step. (*Id* at page 13, lines 17-23.)

The Guidelines also provide for funding beyond the "Initial phase." The “Second Phase” began on April 1, 2003, whereby each LEC receiving USF support became eligible to request additional USF support to fund the continued removal of implicit support contained in the rates of the LECs’ other services. (*Id* at pages 13-14.) Pursuant to this "Second Phase," ALLTEL has proposed to establish cost-based rates for intrastate special access services by identifying and eliminating implicit support presently contained in ALLTEL's intrastate special access rates and offsetting such revenue reductions with explicit support from the

USF. More specifically, ALLTEL would decrease its rates for private line services and recover the revenue reductions associated with the rate decreases through explicit USF support on a dollar-for-dollar basis. (*See*, ALLTEL's Application.) In compliance with the Commission's Guidelines and Order Number 2001-419, ALLTEL provided detailed cost studies supporting its proposal and identifying the implicit support present in its intrastate special access rates.

ARGUMENT

ALLTEL's Application satisfies the existing Guidelines and should be granted. Attempts by various Intervenors to question the Guidelines themselves are not appropriately before the Commission in this proceeding. The scope of this proceeding should consider ALLTEL's Application only with respect to the current Commission-approved Guidelines.

1. The "Second Phase" of the USF

Pursuant to the "Second Phase" of the USF, any LEC that has been designated as a carrier of last resort may request additional state USF in order to reduce its tariffed rates for services which contain implicit support. The amount of implicit support for a given service is the difference between the service's tariffed rate and the LEC's cost of providing the service. Incumbent LECs that are eligible to receive state high cost support may file tariffs reducing their intrastate rates which contain implicit support to universal service in South Carolina. In addition to filing tariffs, a requesting LEC must file detailed cost data to illustrate the existence of implicit support in the rates that the LEC proposes to reduce. These "Second Phase" reductions and corresponding USF support shall not exceed 66.67% of the requesting LEC's share of the total USF, and those LECs whose USF withdrawals do not exceed one third of their eligible USF amounts are not required to recalculate their per line support for residential and single line business lines. The state USF draws are disbursed only when the LECs' tariff reductions become effective. (Guidelines at pages 7-8 .)

2. ALLTEL's Satisfaction of the "Second Phase" Criteria

ALLTEL satisfies the existing criteria set forth in the Guidelines with respect to receiving USF for the "Second Phase." To begin, ALLTEL is a LEC with carrier of last resort status. (Transcript at page 14, lines 18-19.)

ALLTEL provided the Commission with detailed cost studies to demonstrate the existence of implicit support in ALLTEL's rates for 2-wire voice grade service, 4-wire voice grade service, digital data services and high capacity services in connection with channel termination channel mileage facility and channel mileage termination. Due to competitive concerns, ALLTEL proposes to reduce rates for these services as detailed in the Table below and to draw additional annual state USF in the amount of $450,989.83. Presently, ALLTEL's maximum USF eligibility is approximately $7.8 million. (Transcript at page 22, lines 7-9.) Since the total of ALLTEL's requested funding and the state USF funding ALLTEL is currently receiving is only 19.6% of ALLTEL's maximum eligibility, ALLTEL's Application complies with the 66.67% limitation set forth in the Guidelines. (*Id* at page 16, lines 1-2.)

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TABLE

Channel Termination	Current Rate	Proposed Rate
Voice Grade 2 wire	$43.65	$42.40
Voice Grade 4 wire	$68.26	$67.77
Digital Data 2.4	$79.05	$76.47
Digital Data 4.8	$79.05	$76.47
Digital Data 9.6	$79.05	$76.47
Digital Data 19.2	$79.05	$76.47

Channel Mileage Facility	Current Rate	Proposed Rate
Voice Grade	$3.46	$2.35
Digital Data 2.4	$3.46	$2.54
Digital Data 4.8	$3.46	$2.54
Digital Data 9.6	$3.46	$2.54
Digital Data 19.2	$3.46	$2.54
Digital Data 56	$6.91	$5.08
Digital Data 64	$6.91	$5.08
High Capacity 1.54	$70.54	$46.00

Channel Mileage Termination	Current Rate	Proposed Rate
Digital Data 2.4	$31.27	$24.14
Digital Data 4.8	$31.27	$24.14
Digital Data 9.6	$31.27	$24.14
Digital Data 19.2	$31.27	$24.14
Digital Data 56	$62.54	$48.28
Digital Data 64	$62.54	$48.28
High Capacity 1.54	$261.62	$139.63

The proposed rates are set at a level that is above the calculated costs of providing such services and at a level that ensures that the revenues generated will meet or exceed the revenue requirement established by ALLTEL's cost study. As testified by ALLTEL witness Scott Terry, the cost of providing the service includes a reasonable return on the investment. ALLTEL’s proposed rates are based on regulated costs plus a reasonable return which is the last approved rate of return. (Transcript at page 50, lines 4-13.) The revenue requirement for intrastate special access services was determined based on ALLTEL's embedded costs. (*Id* at page 16, lines 13-16.) The Commission has previously found that use of embedded costs for rural companies is appropriate. (Order No. 2001-419 at page 41.) Additionally, ALLTEL's proposed revenue and rate reductions would be revenue neutral to ALLTEL. As the Commission requires eligible carriers to make dollar-for-dollar reductions in rates containing implicit support before the carriers can receive explicit support from the USF, ALLTEL's revenue neutral proposal complies with the Commission's required criteria. (*Id* at page 16, lines 5-7.)

As noted above, ALLTEL's state USF draw from the "Initial Phase" which is currently about $1.09 million (*Id* at page 23, lines 6-8) combined with ALLTEL's requested "Second Phase" funding which again is about $450,000 (*Id* at lines 12-14) would be less than thirty-three percent (33%) of the total USF that ALLTEL is eligible to receive. (*Id* at page 14, lines 21-23.) Specifically, the Guidelines provide that "the Commission approved costs of providing universal service on a per line basis for any particular LEC should remain in place until such time as that LEC's State USF withdrawal exceeds one-third of its company-specific State USF amount." (Guidelines at page 8.) In other words, only after a LEC's USF withdrawal exceeds one third of the eligible amount is the LEC required to recalculate its per line support for both residential and single line business lines by updating the inputs previously utilized to determine the LEC's per line support. (*Id.*) In those instances where LECs are required to update their per line support, the Guidelines ensure that the LECs' withdrawals do not exceed the maximum state USF allowed for those carriers. Again, however, as ALLTEL's total withdrawals would not exceed thirty-three percent (33%) of ALLTEL's eligible USF, the Guidelines do not mandate that ALLTEL recalculate its per line support at this time.

3. Irrelevant Inquiries by the Intervenors

Intervenors set forth several inquiries with respect to ALLTEL's Application that are irrelevant and inappropriate. For example, counsel for SCCTA asked "what if" ALLTEL were to receive more than $6.3 million in implicit support in addition to the state USF ALLTEL is currently receiving and has requested in this proceeding, such that ALLTEL could be "over-recovering" in terms of support. (Transcript at page 24, lines 8-13.) There is no merit to the scenario described above because ALLTEL is eligible to receive USF funds only on a dollar-for-dollar basis, which means that ALLTEL can only draw one dollar out of the state USF for each dollar that is lost due to the proposed revenue reduction. (Transcript at page 37, lines 4-9.) The SCCTA's question is merely hypothetical and completely irrelevant to the facts set forth in this proceeding. Significantly, the funds requested by ALLTEL, when combined with the funding ALLTEL is currently receiving, total only 19.6% of ALLTEL's maximum eligibility.

Similarly, counsel for MCI inquired as to the last time that ALLTEL had conducted a cost study with regard to the cost of basic local service. Yet, this inquiry is wholly irrelevant as the Guidelines specifically do not require ALLTEL to recalculate its per line support until ALLTEL's total withdrawals exceed thirty-three percent (33%) of ALLTEL's eligible USF. Again, ALLTEL has demonstrated that its total withdrawal will not exceed that level.

Such questions have no bearing on the issue at hand - whether ALLTEL's Application should be approved based on the record currently before the Commission. While ALLTEL may not dispute the Commission's authority to revise the Guidelines, all that is relevant here is ALLTEL's satisfaction of the existing Guidelines. Further, in Order No. 2203-215, the Commission determined that "issues relating to the methodologies of cost studies, sizing of funds, company earnings and revenue neutrality have previously been addressed and resolved by the Commission." (*See, e.g.*, Commission Order Nos. 98-322 and 2001-419.) Those determinations were also affirmed by the Circuit Court. (*See*, Order of The Honorable J. Ernest Kinard. Jr. dated September 30, 2002.) It is, therefore, not appropriate or necessary for the Commission to change its previous determinations with respect to those issues. In short, these various issues presented by the intervenors have no bearing on whether ALLTEL's Application satisfies the Guidelines and, therefore, should be dismissed as wholly irrelevant.

CONCLUSION

ALLTEL's Application clearly satisfies the existing requirements set forth in the Guidelines for requesting additional USF. ALLTEL is a designated carrier of last resort, has filed proposed tariff rate reductions, has set its revised rates above the calculated cost to provision the service, filed detailed cost studies, demonstrated the implicit support to be reduced, and proposed reductions which are merely thirty-three percent (33%) of ALLTEL's eligible USF amount. (Transcript at page 18, lines 17-25.) Additional inquiries set forth by the intervenors are wholly irrelevant to the existing rules. Therefore, ALLTEL's request for additional state USF funding and the proposed rate reductions should be granted and the USF resized to recover the implicit support included in the ALLTEL rates in question.

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CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing letter to The Honorable Gary E. Walsh, dated June 25, 2004, regarding Initial Post Hearing Brief by ALLTEL South Carolina, Inc. to its Intrastate Access Tariff and Request for State Universal Service Funding pursuant to Commission Order No. 2001-419 in Docket No. 97-239-C, has been served upon the following counsel of record by placing the same in the United States mail, first class postage prepaid, addressed to the following as shown below this 25th day of June, 2004.

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